

## Message Text

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COMMERCE FOR BEWT/EEAD

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TAGS: EALR, ECON, ETRD, CZ

SUBJECT: ECONOMIC PLAN RESULTS FOR 1975

REF: 75 PRAGUE 2987, 75 PRAGUE A-115

1. SUMMARY. OFFICIAL PLAN RESULTS FOR 1975 SHOW CZECHOSLOVAK NATIONAL INCOME TO HAVE RISEN BY 6.0 PERCENT OVER 1974, WITH INDUSTRIAL OUTPUT CARRYING LOAD AS AGRICULTURE LAGGED. CZECHOSLOVAKIA'S FOREIGN TRADE WITH NON-SOCIALIST COUNTRIES GREW PRACTICALLY NIL, AS OVERALL IMPORTS FROM ALL TRADING PARTNERS  
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EXCEEDED EXPORTS FOR SECOND STRAIGHT YEAR. CONSUMER

SECTOR TURNED IN GENERALLY LACKLUSTER PERFORMANCE, AND INVESTMENTS IN CAPITAL CONSTRUCTION PROJECTS WERE AGAIN SOURCE OF OFFICIAL DISAPPOINTMENT. OFFICIAL YEAR-END REPORT RENEWS CALL FOR INCREASED ECONOMY IN CONSUMPTION OF RAW MATERIALS, NEED FOR RAISING STANDARDS OF QUALITY AND EFFICIENCY THROUGHOUT ECONOMY, BUT OFFERS NO CONCRETE PROPOSALS FOR HOW THESE MIGHT BE ACHIEVED. END SUMMARY.

2. GENERAL. YEAR-END REPORT OF FEDERAL STATISTICAL OFFICE (FSO) ON DEVELOPMENT OF NATIONAL ECONOMY AND FULFILLMENT OF PLAN IN 1975 CONTAINED FEW SURPRISES. A DECLINE IN AGRICULTURAL OUTPUT IN 1975 OF 0.7 PERCENT IN COMPARISON WITH 1974 COMBINED WITH A SEVEN PERCENT INCREASE IN INDUSTRIAL PRODUCTION -- HIGHEST GROWTH RATE RECORDED FOR THIS SECTOR DURING ANY YEAR OF LAST FIVE-YEAR-PLAN -- TO RESULT IN A NATIONAL INCOME INCREASE OF SIX PERCENT. EIGHTY-SEVEN PERCENT OF INCREASE IN INDUSTRIAL PRODUCTION WAS ATTRIBUTED TO HIGHER LABOR PRODUCTIVITY, WHILE EMPLOYMENT IN INDUSTRY INCREASED BY SOME 22,000 WORKERS. AVERAGE NUMBER OF SHIFTS WORKED IN FACTORIES DECREASED SLIGHTLY TO 1.325 PER DAY, BUT THIS NEGATIVE TREND WAS PARTLY OFFSET BY SLIGHT DECLINE IN RATE OF ABSENTEEISM FROM WORK. LEADING INDUSTRIAL SECTORS WERE CELLULOSE AND PAPER INDUSTRY WHICH GREW BY 10.8 PERCENT OVER 1974 AND GENERAL ENGINEERING WHICH EXPANDED BY 9.2 PERCENT, REPORTEDLY ONE OF THE BIGGEST INCREASES FOR LATTER BRANCH IN MANY YEARS. ACCORDING TO FSO REPORT, ALL BRANCHES OF INDUSTRIAL PRODUCTION INCREASED FASTER THAN PLANNED EXCEPT FOR CHEMICALS AND OIL REFINING, WHICH ROSE BY 7.5 PERCENT OVER 1974 -- 2.3 PERCENT LESS THAN PLAN TARGET. DELAYS IN COMPLETING NEW PETROCHEMICAL PROJECTS WERE CITED AS MAIN REASONS FOR LAG IN THIS KEY DEVELOPMENT SECTOR. IN AGRICULTURE, VEGETABLE PRODUCTION FELL THREE PERCENT BEHIND 1974 OUTPUT LEVELS; AND BAD WEATHER DAMAGED OTHER CROPS AS WELL, PARTICULARLY GRAIN, POTATOES, AND SUGARBEETS. LIVESTOCK HEARDS ALSO DECLINED SLIGHTLY, WE PRESUME BECAUSE OF LACK OF FODDER.

3. FOREIGN TRADE. CZECHOSLOVAKIA'S FOREIGN TRADE PICTURE IN 1975 REFLECTED TWO FACTORS EXOGENOUS TO DOMESTIC ECONOMY: 1) PRICES FOR SOVIET RAW MATERIALS, ESPECIALLY CRUDE OIL,  
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WHICH FORCED CZECHS TO CAHNNEL INCREASED EXPORTS TO COMECON NEIGHBORS AND 2) WORLD RECESSION/INFLATION WHICH HAS PUT SEVERE DAMPER ON NATION'S TRADE WITH DEVELOPED WESTERN COUNTRIES. MEASURED IN CURRENT PRICES, OVERALL CZECHOSLOVAK TRADE WITH WORLD INCREASED BY 11.7 PERCENT -- AND BY 21.7 PERCENT WITH SOCIALIST COUNTRIES ALONE. GROWTH RATE OF IMPORTS EXCEEDED THAT OF EXPORTS, WHICH IN VIEW OF LAST YEAR'S DEFICITS WITH ALL MAJOR CLASSES OF

TRADING PARTNERS INDICATES THAT CZECHOSLOVAKIA SUNK FURTHER INTO RED IN 1975. (ACCORDING TO EMBASSY CALCULATIONS, CZECHOSLOVAKIA HAD A HARD CURRENCY DEFICIT OF MORE THAN \$325 MILLION IN 1974.) SPECIFICALLY, IMPORTS GREW BY 12.6 PERCENT (23.1 PERCENT WITH SOCIALIST COUNTRIES, 0.6 PERCENT WITH NON-SOCIALIST COUNTRIES); AND OVERALL EXPORTS ROSE BY 10.9 PERCENT (20.4 PERCENT WITH SOCIALIST COUNTRIES, 0.2 PERCENT WITH NON-SOCIALIST COUNTRIES). CITING CLOSER INTEGRATION WITH CEMA AS MAIN FACTOR SUSTAINING GROWTH IN EXTERNAL TRADE RELATIONS, FSO REPORT PLACED BLAME FOR GBW RATE OF TRADE GROWTH W JTH WEST SQUARELY ON PRICES IN THOSE MARKETS. REPORT DOES ALLUDE, HOWEVER, TO A WORSENING OF CZECHOSLOVAKIA'S TERMS OF TRADE IN 1975 BY NOTING THAT "FOREIGN TRADE EFFICIENCY DID NOT DEVELOP FAVORABLY". REPORT CLOSSES THIS SECTION WITH CALL FOR GREATER ECONOMIES IN USE OF RAW MATERIALS, GREATER INCREMENTS IN VALUE ADDED BY CZECHOSLOVAK PROCESSING INDUSTRIES, AND NEED FOR GREATER ATTENTION TO IMPROVING TECHNICAL AND QUALITY STANDARDS OF PRODUCTS SLATED FOR EXPORT. (COMMENT: WE UNDERSTAND THAT EVEN SOVIETS HAVE BEGUN TO COMPLAIN ABOUT QUALITY OF HEAVY ENGINEERING GOODS IMPORTED FROM CZECHOSLOVAKIA AND HAVE RECENTLY RETURNED SOME LARGE TURBINES MANUFACTURED AT SKODA WORKS IN PILSEN FOR REWORKING.)

4. CAPITAL CONSTRUCTION. SERIOUS PROBLEMS IN COMPLETION OF INVESTMENT CONSTRUCTION PROJECTS PERSISTED IN 1975, AS NUMBER OF LARGE PROJECTS EITHER WERE NOT COMPLETED AT ALL OR ENTERED ON STREAM LATE AND AT LESS THAN DESIGN CAPACITY. FSO REPORT STATES THAT SUPPLIES OF MACHINERY AND EQUIPMENT FOR INSTALLATION IN NEW FACTORIES AND PLANTS GREW MORE RAPIDLY THAN PLANNED, IMPLYING THAT CONSTRUCTION BOTTLENECK WAS BASIC CAUSE OF PROBLEM. CITING SHORTCOMINGS LIMITED OFFICIAL USE

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IN DESIGN PREPARATION AND PROBLEMS IN SUPPLIES OF BUILDING MATERIALS, REPORT STATES THAT COSTS OF UNFINISHED CONSTRUCTION PROJECTS ROSE BY NEARLY FIVE BILLION CZECHOSLOVAK CROWNS (KCS) (\$500 MILLION AT TOURIST EXKEAFPDRATE) OVER 1974. IN COMPARISON WITH THAT YEAR, HOWEVER, "INVESTMENTS WORKS AND SUPPLIES" COMPLETED IN 1975 INCREASED BY 7.9 PERCENT. REPORT CALLS FOR SHARPER FOCUS ON CAPITAL INVESTMENTS WHICH WILL SAVE MANPOWER THROUGH MODERNIZATION AND RESULTS IN PERRY

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INTENSIVE RATHER THAN EXTENSIVE GROWTH.

5.J STANDARD OF LIVING AND PRICES. MONETARY

INCOMES OF PEOPLE IN 1975 INCREASED 3.7 PERCENT OVER 1974,

BUT REPORTEDLY THIS WAS LESS THAN PLANNED. (AVERAGE  
MONTHLY WAGE OF INDUSTRIAL WORKERS GREW TO 2,370 KCS,  
3.5 PERCENT GREATER THAN IN 1974.) PRIVATE SAVINGS ROSE  
AGAIN IN 1975 AS RETAIL TRADE TURNOVER DECLINED 3.4

PERCENT FOR ENTIRE YEAR, DOWN FROM 4.0 PERCENT RATE

REGISTERED FIRST SIX MONTHS. REPORT STATES THAT: "IN 1975  
LEVEL OF RETAIL PRICES AS A WHOLE WAS AGAIN MAINTAINED  
AT ROUGHLY LEVLY OF 1970." CLAIM ALSO MADE THAT SUPPLIES  
OF FOODSTUFFS, APPLIANCES, AND CONSUMER DURABLES INCREASED  
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DURING COURSE OF YEAR. (WHILE THIS MAY BE TRUE OF MOST HOUSEHOLD APPLIANCES, TIRES, AND CLOTHING, SHORTAGES WILL PERSIST FOR SUCH CONSUMER DURABLES AS SEWING MACHINES -- IMPORTANT BECAUSE HARD CURRENCY SHOPS AND HOME-SEWN CLOTHES ARE ONLY SOURCES OF STYLISH CLOTHING -- AND FURNITURE, AS WELL AS ANYTHING MADE OF RUBBER, EXCEPT FOR AUTOMOBILE TIRES. POTATOES, A STAPLE OF CZECHOSLOVAK DIET, ARE ALSO IN SHORT SUPPLY.) POOR QUALITY OF CONSUMER GOODS AND DELAYS IN THEIR DELIVERY TO MARKET WERE OPENLY CITED IN REPORT AS CONTINUING AREAS OF CONCERN TO GOVERNMENT.

6. COMMENT. PROBLEMS IN AGRICULTURE AND IN PETROCHEMICAL INDUSTRY ASIDE, CZECHOSLOVAKIA APPEARS TO HAVE COME THROUGH 1975 IN SOMEWHAT BETTER SHAPE THAN WE HAD EARLIER EXPECTED. FOREIGN TRADE PICTURE REMAINS, HOWEVER, MOST SERIOUS SOFT SPOT IN NATION'S ECONOMIC OUTLOOK. IN ONE YEAR, FOREIGN TRADE TURNOVER WITH NON-SOCIALIST INDUSTRIALIZED AND DEVELOPING COUNTRIES HAS DROPPED FROM A GROWTH RATE OF BETWEEN 30 AND 35 PERCENT TO PRACTICALLY NIL, WHILE GROWTH IN TRADE WITH SOCIALIST COUNTRIES HAS REMAINED AT ALMOST EXACTLY SAME LEVEL AS IN 1974. IMPLICATIONS FOR CZECHOSLOVAKIA'S LONG RUN ECONOMIC REVITALIZATION SHOULD THIS ADVERSE TREND CONTINUE ARE OBVIOUS. ON HOME FRONT, GENERALLY LACKLUSTER PERFORMANCE OF ECONOMY HAS STIRRED FEW SIGNS OF CONSUMER DISAFFECTION BEYOND THOSE ALREADY EVIDENT IN A POPULACE ACCUSTOMED TO SHORTAGES OF ONE KIND OR ANOTHER. AS REGARDS OUTLOOK FOR GOVERNMENT ACTION TO SPUR GROWTH IN LAGGING SECTORS OF ECONOMY, WE ARE OF OPINION THAT INCREASING DISSATISFACTION OF HER CEMA PARTNERS WITH QUALITY OF INDUSTRIAL AND CAPITAL GOODS IMPORTED FROM CZECHOSLOVAKIA -- PARTICULARLY SOVIET COMPLAINTS OVER LATE DELIVERIES AND DEFECTIVE EQUIPMENT -- WILL DO AS MUCH AS ANYTHING TO AFFECT CHANGE IN THIS AREA.

7 FOR USNATO: EMBASSY HAS NO OBJECTION TO THIS REPORT BEING SHARED WITH OTHER DELEGATION'S AT U.S. MISSION'S DISCRETION.

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